

## **Are we heading to a world where only humans, not corporates, pay taxes?**

*By Paul Krugman*

In recent decisions, the conservative majority on the Supreme Court has made clear its view that corporations are people, with all the attendant rights. They are entitled to free speech, which in their case means spending lots of money to bend the political process to their ends. They are entitled to religious beliefs, including those that mean denying benefits to their workers. Up next, the right to bear arms?

There is, however, one big difference between corporate persons and the likes of you and me: On current trends, we're heading toward a world in which only the human people pay taxes.

We're not quite there yet: The federal government still gets a tenth of its revenue from corporate profits taxation. But it used to get a lot more - a third of revenue came from profits taxes in the early 1950s, a quarter or more well into the 1960s. Part of the decline since then reflects a fall in the tax rate, but mainly it reflects ever-more-aggressive corporate tax avoidance - avoidance that politicians have done little to prevent.

Which brings us to the tax-avoidance strategy du jour: "inversion." This refers to a legal maneuver in which a company declares that its US operations are owned by its foreign subsidiary, not the other way around, and uses this role reversal to shift reported profits out of American jurisdiction to someplace with a lower tax rate.

The most important thing to understand about inversion is that it does not in any meaningful sense involve American business "moving overseas." Consider the case of Walgreen, the giant drugstore chain that, according to multiple reports, is on the verge of making itself legally Swiss. If the plan goes through, nothing about the business will change; your local pharmacy won't close and reopen in Zurich. It will be a purely paper transaction - but it will deprive the US government of several billion dollars in revenue that you, the taxpayer, will have to make up one way or another.

Does this mean President Barack Obama is wrong to describe companies engaging in inversion as "corporate deserters"? Not really - they're shirking their civic duty, and it doesn't matter whether they literally move abroad or not. But apologists for inversion, who tend to claim that high taxes are driving businesses out of America, are indeed talking nonsense. These businesses aren't moving production or jobs overseas - and they're still earning their profits right here in the USA. All they're doing is dodging taxes on those profits.

And Congress could crack down on this tax dodge - it's already illegal for a company to claim that its legal domicile is someplace where it has little real business, and tightening the criteria for declaring a company non-American could block many of the inversions now taking place. So is there any reason not to stop this gratuitous loss of revenue? No.

Opponents of a crackdown on inversion typically argue that instead of closing loopholes we should reform the whole system by which we tax profits, and maybe stop taxing profits altogether. They also tend to argue that taxing corporate profits hurts investment and job creation. But these are very bad arguments against ending the practice of inversion.

First of all, there are some good reasons to tax profits. In general, US taxes favor unearned income from capital over earned income from wages; the corporate tax helps redress this imbalance. We could, in principle, maintain taxes on unearned income if we offset cuts in corporate taxes with substantially higher tax rates on income from capital gains and dividends - but this would be an imperfect fix, and in any case, given the state of our politics, this just isn't going to happen.

Furthermore, ending profits taxation would greatly increase the power of corporate executives. Is this really something we want to do?

As for reforming the system: Yes, that would be a good idea. But the case for eventual reform basically has nothing to do with the case for closing the inversion loophole right now. After all, there are big debates about the shape of reform, debates that would take years to resolve even if we didn't have a Republican Party that reliably opposes anything the president proposes, even if it was something Republicans were for just a few years ago. Why let corporations avoid paying their fair share for years, while we wait for the logjam to break?

Finally, none of this has anything to do with investment and job creation. If and when Walgreen changes its "citizenship," it will get to keep more of its profits - but it will have no incentive to invest those extra profits in its US operations.

So this should be easy. By all means let's have a debate about how and how much to tax profits. Meanwhile, however, let's close this outrageous loophole.

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